
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
POLICY SUBCOMMITTEE
OF THE
INVESTMENT COMMITTEE**

MINUTES OF MEETING

June 16, 2006

A meeting of the Policy Subcommittee was held on Friday, June 16, 2006 in the Lincoln Plaza North Building, Room 1140, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 1:05 p.m. and the following members were present:

Priya Mathur, Chair
Marjorie Berte, Vice Chair
Robert F. Carlson
Charles Valdes

Policy Subcommittee members excused:

Tony Oliveira

Other Board Members present:

Rosalind Brewer, representing Philip Angelides

AGENDA ITEM 2 – APPROVAL OF THE APRIL 2006 MEETING MINUTES

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to approve the April 14, 2006 meeting minutes as presented.

AGENDA ITEM 3a – FIXED INCOME POLICY, Revision of Credit Enhancement Program

Curtis Ishii, Senior Investment Officer, and Daniel Kiefer, Portfolio Manager, presented the item.

Andrew Junkin, Wilshire Associates, Inc., was available to respond to questions from the Subcommittee.

The Credit Enhancement Program (CEP) Policy was adopted on February 14, 2005 by the Investment Committee. After over a year of operation, staff is proposing to revise the CEP Policy in order to improve operational flexibility while maintaining the Program's risk profile. The proposed revisions include the removal of the Originator and Servicer requirements and the addition of a partnership requirement. The Partnership and co-investment language will ensure that CalPERS' interests are aligned with other financial partners.

On **MOTION** by Mr. Valdes, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statement of Policy for the Credit Enhancement Program.

Later in the meeting, Mr. Carlson requested that staff investigate the need, if applicable, for language relating to municipal bond securities tax exemption policies. Staff will report back as appropriate.

AGENDA ITEM 4a – MISCELLANEOUS POLICY, Revision of Directed Brokerage Arrangement (Second Reading)

Matt Flynn, Investment Office Division Chief presented the item.

This is a second reading of the policy revision to include language that identifies the type of services that do not receive SEC Section 28(e) protection. The section is revised to more clearly state that computer hardware, professional licensing fees and general overhead expenses are not protected by Section 28(e); therefore, they cannot be purchased using commissions recaptured as part of the System's Arrangements.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to approve the second reading and recommend to the Investment Committee approval of the revised Statement of Investment Policy for Directed Brokerage Arrangement.

AGENDA ITEM 5a – ADMINISTRATIVE, Policy Subcommittee History

Anne Stausboll, Assistant Executive Officer, presented the item.

As requested at the April 2006 Subcommittee meeting, this agenda item provided a brief overview of the history of the Policy Subcommittee.

The Policy Subcommittee accepted the information report.

AGENDA ITEM 5a – ADMINISTRATIVE, Proposed August 2006 Agenda

The Subcommittee accepted the proposed August 2006 agenda and added a Policy Review Project Update item.

AGENDA ITEM 6 – PUBLIC COMMENT

There were no public comments.

The meeting was adjourned at 1:20 p.m.

The next meeting of the Subcommittee is scheduled for August 11, 2006 at a time to be determined in Sacramento, California.